SmartMoney

Special Report: **Reinventing Retirement** **by AnnaMaria Andriotis** Published February 3, 2009

Retirement Guide for 20- and 30-Somethings

When you still have decades until retirement, the Dow's plunging 4,000-plus points in a year and news that employers are suspending 401(k) matches may seem like things that only your parents -- or even their parents -- should be concerned about. After all, you have plenty of time to build your nest egg later on, right?

Right -- and wrong. Yes, time is decidedly on your side. For 20- or 30-somethings with three to four more decades until retirement, recent market losses are likely to have little impact on your existing 401(k) balance, says Stuart Ritter, certified financial planner at **T. Rowe Price** (*TROW*[1]). But that doesn't mean those retirement accounts can be neglected either.

"The most valuable asset these folks have…is to start saving early…and the power of time to invest for the long run," says Bill Hunter, vice president of retirement products at Fidelity Investments. "Steady, disciplined savings even in difficult times will pay off."

To make sure you're set come retirement age, here are five steps to take now.

Start Early

When debt from student loans and credit cards is hanging over your head, it's understandable that saving for retirement often gets put on the back burner. But failing to do so will hurt you significantly come retirement.

According to human-resources consulting company Hewitt Associates, close to one-third of 30- to 39-year-olds don't even have a 401(k) yet. At this age, says T. Rowe's Ritter, people should be stashing *at least* 10% to 15% of their annual salary in a retirement plan to maintain their current lifestyle when it comes time to stop working.

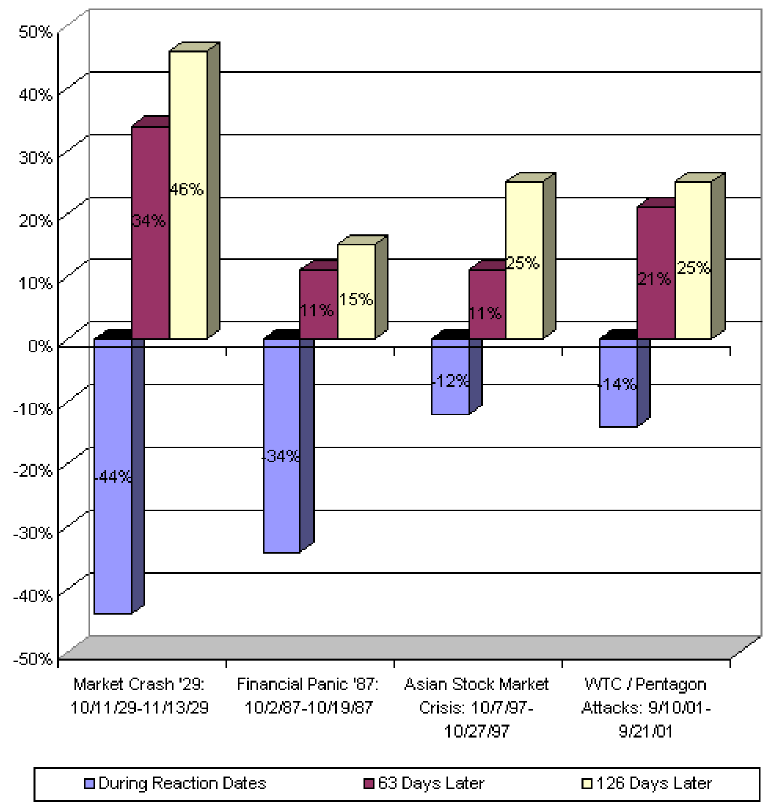
Get All of Your Employer's Match

Most employers match 50 cents for every dollar you invest up to 6% of your pay, according to Hewitt Associates. Fail to invest enough to get your employer's full company match and you'll miss out on free money.

Even if your employer stops its matching program -- more than two dozen companies have reduced or suspended their matches in recent months -- it's still important to save as much as you can, says Pamela Hess, director of retirement research at Hewitt Associates. When the recession ends, it's likely that most of these companies will start offering a match again, she says.

Don't Try to Time the Market

One of the biggest mistakes investors in their 20s and 30s could make is to pull all their money out of the market, and then try to time when the market will rebound so they can put it back in. Historically, some of the biggest gains in the stock market have occurred in the months following significant losses. If your money isn't in the market when that occurs, you could miss out on recouping your losses -- and possibly earning some sizable gains.



** Rate of change is calculated from the last day of the reaction dates.*
Chart source: Ned Davis Research

Keep in mind that the 10% you're putting into your 401(k) today is buying more shares than it would have bought a year ago since shares are so cheap. Plus, those contributions will have a longer time to grow and multiply.

Pick the Proper Risk Level

One of the most basic rules of investing is: The longer your time horizon, the more risk you can take. For those in their 20s and 30s, that means investing a majority, or all, of your portfolio in equities. Ideally, the mix should include about 60% in large-cap stocks, 20% in medium- and small-caps and 20% in international companies, says Ritter. (Individuals looking for some safety can invest in bonds, but they shouldn't make up more than 10% of a portfolio at this age, says Hess.)

If you don't feel comfortable picking your own holdings, try a *target-date fund*[2]. These mutual funds are specific to the date you plan to retire and become more conservative as the investor nears retirement.

Put Extra Cash in a Roth

Already put enough of your salary in your 401(k) to meet your employer's match? Then consider stashing some money in a Roth 401(k) or Roth IRA. While you won't get an upfront tax deduction, the account does grow tax free. Plus, any withdrawals taken during retirement aren't subject to income tax, provided you're at least 59 1/2 and you've held the account for five years or more."This is a great way for younger people to hedge tax rates especially since we don't know where tax rates will be in the future," says Hess.

Also see our stories on *Roth 401(k)s*[3] and *Roth IRAs*[4].

[1]http://www.smartmoney.com/quote/TROW/
[2]http://www.smartmoney.com/personal-finance/retirement/avoid-tapping-your-nest-egg-in-a-down-year-21288/
[3]http://www.smartmoney.com/personal-finance/retirement/understanding-the-roth-401k-17679/
[4]http://www.smartmoney.com/personal-finance/retirement/which-ira-is-best-7968/
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